



23 March 2015

ASX RELEASE

Letter to Fellow Shareholders

Dear shareholders,

On behalf of my colleagues Mr. Jerry Jiajun Hu and Mr. Burney Yuanguang Yang, I am pleased to report that KalNorth Gold Mines Limited's (ASX: KGM or "KalNorth" or the "Company") shares have been successfully reinstated to ASX quotation effective 19 March 2015 having been in voluntary suspension since October 2014. We thank you, the shareholders, for your support during this time and acknowledge the ongoing support of the various parties that have provided loans to the Company.

Review of recent history

The Company has faced a very challenging environment since mid-2013 with the decline in the gold price and the termination of mining operations at the Lindsay's project. As a consequence, employment of most staff was terminated and the composition of the Board also changed completely. Reducing costs across the board and maintaining and protecting the Company's portfolio of tenements became a top priority.

That discipline of controlling costs continues and the Board expresses its gratitude to the Company's small and dedicated management team. During the past few months, the Company's cash reserves have been improved with cash inflows from the sale of the non-core Mt Jewell tenements and the receipt of just over half a million dollars being a research and development refund.

The Company has also received overwhelming support from its lenders. As you would have been aware, the Company's loans became due and payable in November 2014 (that being the principal reason why the Board sought a voluntary suspension on the ASX in early October 2014). On 11 March 2015, the Company reached agreement for the restructuring of all its secured and unsecured loans. As a consequence, the principal amount of all loans which comprised AU \$3.5M secured and AU\$0.7M unsecured has been extended to a maturity date of 30 April 2016; all accrued interest up to 31 December 2014 was settled by issuing fully paid ordinary shares and the interest rate on all loans has been reduced to 10% per annum from 15% and 18% in some instances, effective from 1 January 2015.

Strategy

The Company has redirected its focus on assessing the value of its three core gold projects as Lindsay's, Kalpini and Kurnalpi located north east of Kalgoorlie by planning exploration to improve confidence in the resource model at each project with the aim of realising value via future development.

The Company completed a regional geophysical data compilation over the project area in December 2014 and has recently commenced a geophysical interpretation of the Kurnalpi project utilising this data to improve geological understanding as well as identifying and prioritising exploration targets. This is expected to be completed during the current quarter and provide the ranking of exploration targets for future drilling.



Three diamond drill holes were completed at Lindsay's in February 2015 which targeted the Parrot Feathers vein some 25-30m below the previously mined Stage 2 open pit. Details and results of this drill program will be released shortly. In addition amendment of the resource model at Parrot Feathers, using the recent drilling and detailed re-logging of the historical exploration drill holes is underway. This work is focussing on the higher grade mineralisation below the open pit which extends some 400m down dip with the aim to consider re development at Lindsay's via an underground mine. Following release of the results of an updated resource model the Company will give consideration to initiating an under-ground mining scoping study.

At Kalpini, a programme of four RC pre-collared diamond drill holes has commenced and it is expected to be completed by the end of the month. Similarly to the Lindsay's project program referred to above, the Company has planned several drill holes to gain a greater appreciation of the Kalpini geology and mineralisation, improve the resource model and then to consider options for open pit and / or underground development.

As recently announced, the Company has now resumed 100% ownership of the Spargoville project after the JV partner, Mithril Resources Limited withdrew from the joint venture. On return of all data from Mithril, the Company will assess its next steps for this project.

In order to maintain a focus on exploration activity, the Board and management will continue to seek support from existing shareholders and identify new investors who can see value in the Company's strong suite of mineral properties.

Once again, the Board expresses its gratitude to shareholders and lenders.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Lijun Yang", is positioned above the printed name.

Lijun Yang

Executive Director and Company Secretary

KalNorth Gold Mines Limited